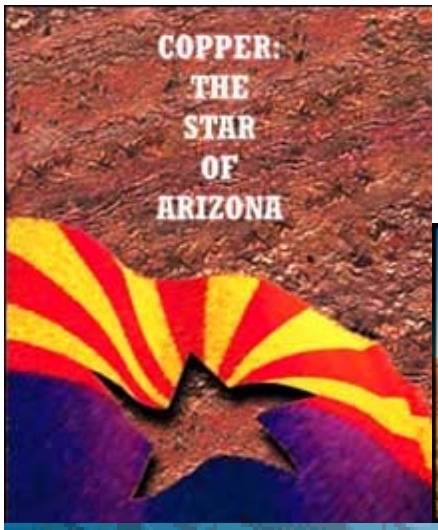
The Future Partnership for Arizona Telecommunications starts Today!



ADOA
Arizona Department of Administration

Executive Summary

MCI is pleased to share our experiences and recommendations to the State of Arizona for the "Guidelines for Interested Party Communications with the Telecommunications Executive Governance Committee", issued June 18, 2003. MCI has been a leader in providing Government-specific solutions for over 15 years and is eager to share our 'best practices' with the state from the "vendor-side" point-of-view.

MCI has provided some of our state experiences and business recommendations in the following key areas:

1. Recommended Service Delivery Model
2. Migration Strategies (benefits of a converged network)
3. Cost Saving Opportunities

For the recommended Service Delivery Model, MCI will share it's personal involvement as a co-prime vendor for the California Integrated Information Network (CIIN) contract or sometimes referred to as CALNET, a seven-year contract awarded in 1998. Through our history of providing service to many state government entities, MCI sees very similar issues facing Arizona that California once faced, and how its "outsourced model" deserves consideration for the results they have accomplished.

Next, in Migration Strategies, MCI will discuss the business trends in the industry pushing decisions towards the "IP Anywhere" network. With so many technologies becoming IP-centric, MCI will discuss the long term benefits moving towards a "converged network" architecture supporting virtually all services.

Lastly, in Cost Saving Opportunities, we will discuss the variety of areas where customers are seeing cost savings through an outsourced/privatized model with a converged network architecture. These savings, direct and indirect, will provide significant momentum to support our recommended Service Delivery Model and Migration strategy.

MCI hopes the information provided herein is helpful to the State and assists in stimulating dialogue with the vendor community toward a common goal….the revitalization of Arizona IT through the right combination of partnerships and technology.

The MCI Team thanks the Board for the opportunity to comment.

The MCI Team

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MCI Recommended Service Delivery Approach (Looking at the California Model)

For more than 15 years, MCI Government Markets, a market leader and premier provider of telecommunications services to federal, state and local government has kept agency users on the forefront of new technology by providing cutting edge products and services. MCI Government Markets continues its commitment to the advancement and optimization for the State of Arizona's organization's performance.

From California to Virginia, our managed state networks have helped improve the accessibility of government to residents, businesses and educational facilities. Through our experience and business relationships with the various states, MCI would like to propose the State of Arizona review California's model, the California Integrated Information Network, (CIIN) or sometimes referred to as CALNET.

California has centralized the delivery of telecommunication services to all non-exempt state agencies. This was accomplished through a "State Management Memo (97-01) sponsored by the Department of Information Technology (DOIT) and the Department of General Services Telecommunications Division (DGS-TD). The creation of the management memo was part of an overall new statewide strategic plan. This plan had a number of goals that were intended to replace the existing environment of a independent, heterogeneous, state owned telecommunication network with an integrated, flexible, and efficient statewide network.

The new strategic plan was designed to address the business problems of state agencies, providing for modernization of the current infrastructure and rapid deployment of new technologies to meet the state's ever increasing telecommunication needs. In order for the state to achieve their goals and objectives, the following long-term strategies and policies were adopted immediately:

Long-term strategy

- The state had to move from a model of state-owned and operated redundant networks to a common, integrated state managed, but privately owned and operated network.
- Issue an Solicitation for Conceptual Proposal (SCP) soliciting information from the vendor communities regarding potential approaches and market conditions and also to explore options for private sector ownership of state networks
- Based on information received from the SCP, the state would release an RFP utilizing an "Alternative Procurement Process" with a best value (not price) evaluation methodology
- The state strongly encouraged "Best of Breed" partnerships with a single point of contact utilizing today's latest technologies
- The state would divest itself of its current network associated assets and relieve the state of their current system's existing long term financial obligations
- Leverage the states total buying power to reduce overall costs and ensured delivery of services

Policies

- State agencies were required to utilize contracts issued by DGS-TD to obtain voice and data services
- Separately held contracts by state agencies would be renewed on an exception basis only
- Existing contracts for telecommunications hardware, software and services would be made coterminous with the projected award date of the new statewide telecommunications contract
- Usage of a statewide consolidated network for voice, video and data service is mandatory, unless a specific waiver was granted by DOIT
- All agencies will utilize the new statewide contract unless there is a compelling business reason (i.e. technological not price) to do otherwise. All exceptions would be reviewed and approved by DOIT, and DGS-TD

Arizona is faced with many of the same challenges (outlined in "An Initial Report" dated May 29, 2003 and "Overview of the State's As-Is Situation" dated May 29, 2003) that California was faced with in 1997. There are also very similar characteristics (i.e. roles and responsibilities) of the Department of Information Technology (DOIT) and GITA and the Department of General Services Telecommunications Division (DGS-TD) and ATS.

After receiving information from the SCP, the state issued an RFP July of 1997. After 12 vendors submitting responses, 17 months of addendums, countless presentations, and two formal protests, the contract was finally jointly awarded to MCI and Pacific Bell, on December 4, 1998 for a 7-year base term with 3 one-year renewals.

Our solution addressed the current business problems of the state agencies and local municipalities as well helped address their future business needs. We were also able to offer very competitive prices because of the state management memo, 97-01 (mandated agency use) and the length of the contract term (i.e. 7 year base). These rates were protected with a Most Favored Nations (MFN) commitment.

MCI and Pacific Bell's joint solution offered the state the following benefits:

- Very low user impact during implementation and converting of services
- MCI and Pacific took the management approach of forming a partnership to provide a high level of joint prime contractor support for all services offered in the proposal
- Committed to a statewide contractual responsibility for all services and service performances (i.e. Service Level Agreements – SLAs)
- Provided a high level of user support in terms of marketing and training
- Offered immediate remedies to the individual users for performance failures and contractually offered remedy off-ramps for troubled services without requiring the state to find the partnership in contractual default
- Assumed all debt liabilities which provided the state with near immediate relief from risks and liabilities associated with the debt
- Provided the state access to a variety of management tools for contract management and oversight

Summary

Although the model for California has worked very well, in helping the State meet their strategic plan goals and objectives, we also understand that Arizona has it's own unique business goals and objectives that need to be met. For consideration only, Arizona may want to look at some of the following California model requirements that California outlined in their strategic plan:

- Address the present and future telecommunication needs of state agencies and local government
- Provide for modernization of the contractor's infrastructure for rapid deployment of new technologies
- Become the vehicle for the efficient consolidation of networks on a statewide basis and provide the services necessary to share information among state agencies and citizens of California
- Allow the state to divest itself of it's existing debt associated with a state owned and operated telecommunications infrastructure in a manner which reduces overall costs to the state while ensuring improved delivery of services

Through a strategic partnership with the State of California, MCI has played a significant role in helping the state design and implement their short and long-term strategic vision of a new telecommunications model. Below are just a few of the Centralized and Privatized benefits that the state has realized:

Marketing/Communication plan – This has been one of the contracts key successes. MCI, Pacific Bell, and DGS-TD have developed a joint marketing plan that has significantly increased the awareness of all the contract benefits. Bulletins, trade shows, awareness workshops, and web sites, have all contributed to major participation in the CALNET contract.

Best of Breed partnerships – Allowed the state to get out of the telecommunication business and form a long-term strategic partnership with MCI to provide the quality of products and services to meet the State's business requirements today and helped migrate them to platforms and technologies of the future.

Centralized Delivery of Service – This concept allowed the state to become an oversight and contract management point of contact for all agency and local government users.

Self-Funded Through Administrative Fees – Annual price reviews, strong service level agreements, and latest technologies have attracted more than 1,700 state and local government agencies to use the contract. Strong support from the DOIT and DGS-TD mandating agency participation (97-01) has played a significant role as well.

Alternative Procurement – Allowed the state to use a "Best Value" evaluation methodology rather than lowest price. The benefit allowed the state to form a business partnership with vendors who possessed the expertise to assist in developing the new telecommunications model.

Contract Amendments – Has provided the state with a vehicle to add new products and services as they become available and to keep the contract up to date with current technologies.

Migration Strategies
(Looking at a new IP environment)

All the hype and debate surrounding convergence, VoIP and next generation networks has created an increasing amount of confusion in the state government and business world. It is important for the State of Arizona take the necessary steps to gain a better understanding of how the converged network can help agencies and local municipalities meet their ever changing business needs.

Converged communication, VoIP and next generation networks are all terminology being used to describe the next step in our industry's technological evolutionary process.

- **How Arizona's business needs can be met by emerging technologies (i.e. converged network solutions)**

The march of technology is often driven by business needs. The adaptation of the public Internet as a business tool is a perfect example. Facilitating communications between business and customers, government and constituents, in new ways will improve the experience for all sides. The key to facilitating communications is to allow government and business to do what they do best, and make the technology as transparent as possible. MCI believes the key to providing ubiquitous access to enable e-Government and foster economic development is Converged Networking or networks that bring together diverse services -– e.g. voice, video, text/graphics -- and streamline its transmission to end-users.

In addition to unifying the three primary communication channels (voice, video, and data) into a streamlined, high bandwidth communication environment, Converged Networks support new technologies, such as wireless, and a new wave of integrated, Internet Protocol–enabled (IP) applications. Converged Networks and Distributed Computing Services provide the infrastructure -- long distance networks, local area networks, wide area networks, desktops, support services and mobile or wireless -- that is critical to the successful delivery of government services in a consistent and seamless across the entire state.

The converged approach, to a great degree, "future-proofs" Arizona's telecommunications infrastructure and allows graceful adoption of services and features now under development as part of the ongoing evolution of universal telecommunication services. A Converged Network on the leading edge of technological advances, and poised to incorporate new advancements through research developments, will transform the State's telecommunications infrastructure and position the State as a leader in the deployment of Information Technology.

A public-private sector partnership, with a proven technological leader and change agent will be a critical success factor. Consider for example, the impact that Converged Networking could have on operational efficiency, by linking together government offices -- front and back office operations, legacy systems, web-based activity, external databases, and mobile and wireless computing! Such integration can truly boost organizational productivity and efficiency, eliminating much duplication of effort that goes on when systems remain separate.

This linkage must take advantage of current systems in place. They must be flexible and agile when required, to replace or upgrade to new technologies that come available, but

do so with minimal impact to end-users. Security must not be compromised, nor breadth of new service offerings. There must be ubiquitous access across the State and there must be innovative approaches to deliver this in a cost effective manner.

Converged applications allow the user agencies to become more efficient at their job. The new generation of applications contains features that transcend traditional application boundaries. Arizona's new network concept would be designed from the ground up to take full advantage of these next generation applications. New and existing applications and services can be easily integrated into Arizona's new statewide network vision.

- **How can emerging technologies be made available at reasonable prices?**

In delivering a statewide solution to Arizona, MCI Government Markets would employ a strategy of competitive, market-based access methods. This simply means that Arizona schools, businesses, government agencies, and individual citizens would have a choice of ways by which they can connect to the State's converged network. This strategy strengthens our ability to provide services that are affordable, reliable, secure, and available, even in the most rural areas of the State.

Access to Arizona's new statewide network would be available through a variety of technologies, including traditional private line (I.e. T-1/T-3) , Frame Relay, ATM, DSL, and/or VSAT satellite technology. Our aim is to provide diverse access options wherever possible, utilizing a variety of providers. This approach would not only stimulate competition, but would also ensure the most flexible and reliable design. MCI, the nation's largest competitive local exchange carrier (CLEC), would help ensure the success of our multiple broadband access provider philosophy. We have the management tools to effectively evaluate the best access alternatives and providers. Therefore, Arizona would not be constrained by monopoly access providers. Through these alternative providers, the State and its citizens would be able to enjoy the benefits of digital technology at a lower price.

- **What standardization (enabled by the State's Enterprise Architecture) can be required or encouraged in regard to emerging technologies?**

A required first step on the path to Converged Communications is to transition away from legacy access methods and protocols and move towards the "IP Everywhere" architecture.

IP or Internet Protocol has proven itself to be the protocol of the future. IP is the universal language behind today's Internet and will be the protocol behind tomorrow's applications. Unlike Frame Relay or ATM, IP has unlimited bandwidth potential. As the State's applications grow and require more bandwidth, IP provides the needed capacity and reliability.

IP has proven to be robust enough to implement in virtually any type of network. IP can handle time sensitive applications such as Voice and Video and is scaleable. In today's networking world, IP is used to handle everything from Main Frame file transfers to Long Distance Phone calls. IP is commonly deployed from "desktop to desktop" eliminating the need for separate LAN and WAN protocols.

If implemented, the MCI Government Markets IP Everywhere network would allow the State of Arizona to be on the cutting edge of tomorrow's technology. By implementing MCI Government Markets IP Everywhere network the State could take full advantage of convergence and the universal availability of services.

Cost Savings

When state governments are considering a move to the “outsourced/ privatized “ model and a converged network architecture, it’s very difficult to be precise on cost savings without a full and comprehensive “total cost of ownership” analysis.

While some Governmental agencies have predicted savings of 13 –30%, MCI feels the most prudent approach is to begin with understanding the business drivers. We need to understand what the State’s businesses needs are today and in the near future, what business/technology trends necessitate change, and what are the costs if we don’t change. Once we have a thorough understanding of these issues, a customized solution can be designed.

Cost savings can be broken down into two categories - direct and indirect savings. Direct savings are those realized from a direct replacement of product “A” with product “B” (without sacrificing any features) which results in a savings per unit compared to current costs. Indirect savings are more intangible. They are the savings realized in all aspects of the enterprise by making a change. These can come in the form of increased efficiencies or avoiding future costly expenditures with old or obsolete equipment. Whether savings come directly or indirectly, they both offer compelling reasons to consider change.

In this section, MCI will provide areas where the State can realize savings as it moves toward the Outsourced/Co-sourced with a Converged network emphasis. Because many of the cost savings can be realized in both categories (Outsourced and Converged), we will consider them together and denote with an “O” for Outsourced or “C” for Converged, or “B” for both where the State of Arizona would expect to realize savings.

As many studies have shown, the move to outsourcing is not always done strictly for upfront, right off the top, cost savings. However, many of the business reasons point to future cost avoidance, costs incurred in working with inferior technologies, or costs of doing business in an inefficient manner. All of which are significant factors to be considered.

The table below offers some suggested areas of savings. Because the State is most familiar with its own business practices and procedures it is in the best position to place specific economic value on these areas of interest.

Cost Savings	Outsource (O), Converge (C), or Both (B)	*D*irect / *I*ndirect (D, I)
Reduced up-front Capital required from cash-strapped organizations to invest in necessary technology.	O	D
Savings due to reduced, redundant, IT staffs.	B	D
Consolidation of Data Centers will reduce redundant equipment requirements, reduce employee costs, and free up valuable real estate.	B	D
Reduction in maintenance contract costs.	B	D
Reduction in costs for Telco access through consolidation.	B	D
Contracts – employee time and energy will be saved with fewer vendor contracts to manage.	O	I
Improved Customer service – translates to shorter install times and better Service Level Guarantees for citizens. More time for employee training.	B	I
Vendor Accountability – Prime vendor(s) have a stake in providing high quality delivery of services results in efficient service.	O	I
Leverage consolidated purchasing power of State – this translates to better allocation of tax dollars for greater investment in underserved and rural areas.	B	D
Costs avoided through increased network monitoring, better management systems, and more secure networks.	B	I
Standardization of processes increases employee performance. Consolidated Billing feeds (less bills = less administrative time = more efficient employees.)	B	I
Quicker deployment of enhancements throughout the enterprise results in greater output.	B	I
Greater overall ROI of investment dollars as compared to current model.	B	I
Efficiencies gained in each Agency by being able to spend more time on core competencies.	B	I
Savings to tax payers by increasing access to State services and lowering cost to deliver these services.	B	I

Summary

MCI is proud of its contributions in the Federal and State arenas over the years. We have proven that successful government implementations take the right combination of partnering, expertise, know-how, and financial strength to perform. It is our opinion that an Outsourced model with a Converged network migration strategy will offer the State of Arizona the most flexible, robust, and cost effective IT solution for its constituent agencies, local governments, and the tax paying citizens of the State. With proper attention to scope and governmental oversight, Arizona has the opportunity to leap ahead, technologically, into the 21st century.

MCI appreciates the opportunity to provide comment and looks forward assisting Arizona in shaping the solutions for tomorrow.